President's Report

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President & Chief Executive Officer

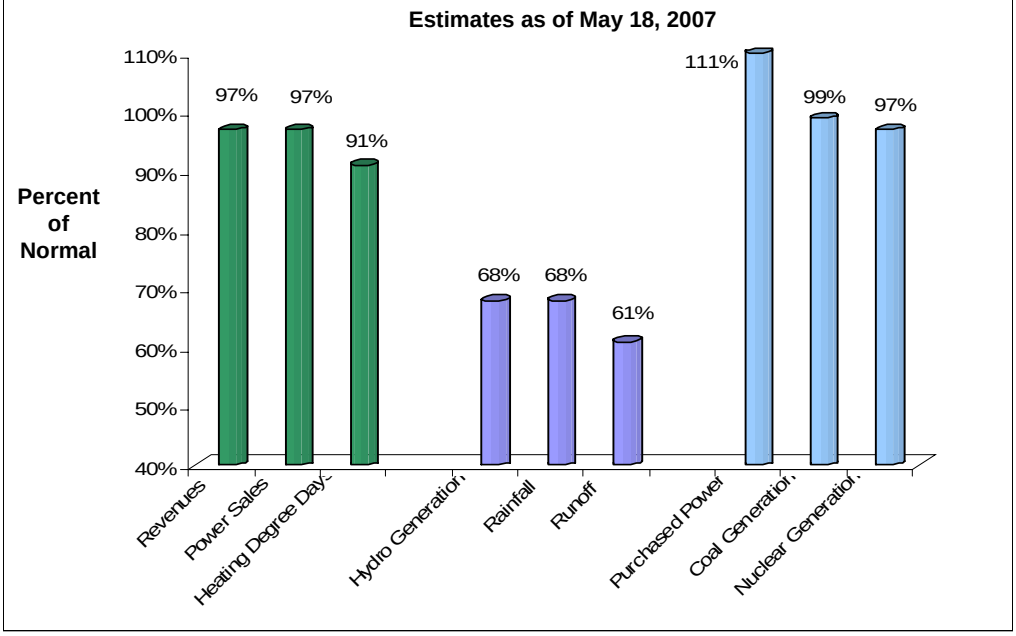
May 31, 2007

Report Overview

Fiscal Year Update

- **Financial Status**
- **Browns Ferry Update**
- **Near-term Objectives**

FYTD 2007 Impacts



This illustrates the estimated impacts of weather for the year-to-date (thru May 18)

<u>First set of three bars relates to revenues</u>.

The first two bars indicate the YTD revenues and kWh sales are both @ 3% below plan.

The third green bar represents the primary driver of the first two. During the first half of this fiscal year we've had 9% less than projected Heating Degree Days, which are based on calculations when the average temperature is below 65 degrees. So we have a carry-over effect from the mild winter on power sales and revenues.

Going forward, the warmer-than-normal forecast through July should help bring our sales and revenues back in line with expectations.

<u>The second set of bars relates to hydro generation.</u>

The first bar shows that hydro generation was 32% below plan as of May 18. The second and third bars, respectively, reflect the drivers of the lower hydro generation – rainfall and runoff.

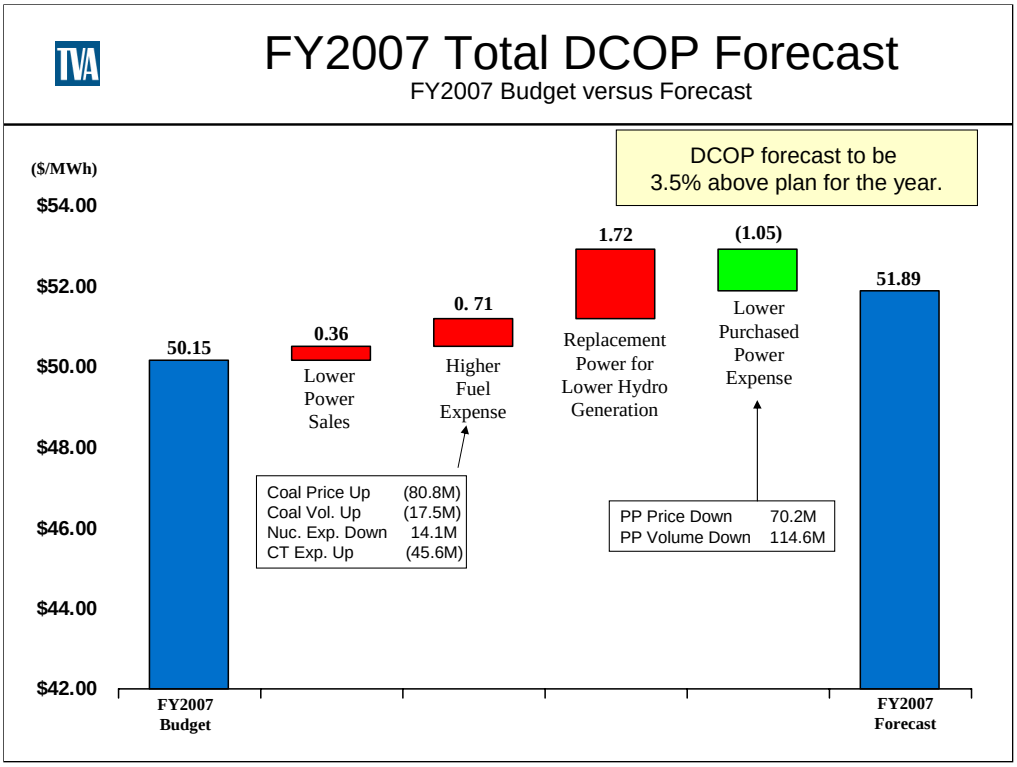
Rainfall was 32% below average and runoff to the reservoirs was 39% below normal.

<u>The third set of bars relate to our power supply</u>, including purchased power.

The first bar indicates that the volume of purchased power is 11% above plan due largely to the shortfall in hydro generation.

The second bar indicates that fossil generation is 1% below plan due to both lower power demands and unit performance issues.

The third bar indicates that nuclear generation is 3% below plan due to outage schedule changes and unplanned outages.



This illustrates our current forecast for Delivered Cost of Power for the fiscal year.

These estimates are based on actual results thru April and the April Power Supply Plan.

The blue bar on the right shows the DCOP forecast of $51.89/MWh, which is about 3.5% higher than the fiscal year budget of $50.15/MWh.

The red and green floating bars reflect components of the overall increase, which include:

- **Lower forecasted power sales primarily due to the mild winter**

- **Higher fuel expense related to increased average coal prices and volume of coal consumed, and increased combustion turbine fuel expense due to increased generation, partially offset by lower nuclear fuel expense.**

- **Hydro generation is expected to be 28% below plan for the year due to the drought conditions we're seeing. This lost hydro generation has to be replaced by higher-cost purchased power and other TVA generation sources. We estimate this will add $1.72/MWh to our average cost of power for the year.**

- **Finally, in absence of the hydro issue, our purchased power expense would be lower due to lower than expected purchased power prices and a lower volume of purchased power. Both of these factors reflect the reduced sales demand for the year.**

Browns Ferry Update

Reactor reached critical at 12:28 a.m. on Tuesday, May 22, and the plant began the initial round of testing.

We'll be conducting tests on the reactor and other plan systems during the next several weeks.

The testing will involve a series of brief connections to the power grid and some deliberate automatic shutdowns to ensure the integrity of the safety systems.

((Operators manually shut the reactor down early Thursday when we had a hydraulic fluid leak during a maintenance activity. It occurred in the turbine building away from the reactor and our operators took conservative action in shutting the unit down.))

Browns Ferry in the news

The Unit 1 startup received considerable media attention. Stories were carried in newspapers in at least 45 cities around the country, and it was an item in the national television network news programs.

This reflects both the media attention on nuclear power and the significance of our achievement in adding the first nuclear generation to our nation's electricity supply in the 21st Century.

We're still seeing a lot of media interest in the post-startup testing phase.

Near-term Objectives

- **Complete Browns Ferry Unit 1 startup**
- **Implement Strategic Plan**
- **Joint generation ownership w/TVPPA**
- **Rate products developed**
- **Renewable & Demand-side Management plan**

• Complete Unit 1 startup testing and transition to operations.

•Implement Strategic Plan

•Joint generation ownership options are developing.

TVPPA has formed a cooperative to facilitate distributor investment in a project, such as upgrading the peaking units we purchased in West Tennessee last fall. The upgrade would represent the distributors' ownership stake in the plant.

• Rate structure changes

• Develop comprehensive renewable & demand-side management plan.

Initiated a pilot program for our first demand-side management pilot through a third-party. Contracted with EnerNOC. The company is in discussions with our distributors in Chattanooga, Nashville and Huntsville, Alabama, to work with commercial and light industrials to reduce summer afternoon peak loads by a total of 4 to 6MW.

We already have a 1,600 MW demand-side capability through our interruptible rate program with large industrial customers.


TVA